

INFORMATION REPORT

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The following report is an analysis of the situation confronting USIA with regard both to its own internal difficulties and to its relations with the Austrian economy. Although the material contains much intelligence which is not new, it is submitted as a well-rounded study of the topic.

1. The economic policy of USIA is in a state of complete reorganization. Until a short time ago, all indications pointed to preparations by USIA for integrating its holdings directly into the eastern economic system, but during the past two months it has become apparent that the exact opposite is the case. Organizational changes as well as business agreements indicate that USIA is now laying the greatest emphasis on trade with the West (See appended ☐ Comment, paragraph 1).

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2. In order to achieve its goal of profitable and uninterrupted trade with the western countries, USIA is allowing the individual enterprises to carry on their own compensation deals with the western countries. The USIA Buying and Selling Office had to contend with a great measure of unmaneuverability in its own mechanism, as contrasted with the more flexible western firms, and there was an unwillingness on the part of both the Austrian Government and some western countries to deal with the USIA Buying and Selling Office. Consequently, the Soviets were obliged to concede an increasing business freedom to the firms under their control, in order to avoid losing the western market entirely. The result has been that individual USIA firms have been allowed to conclude their own purchasing arrangements in cases involving purchase of equipment and machinery as well as limited amounts of raw materials. The business of contracting for large quantities of raw materials, especially in the critical categories, such as tin, zinc, copper, cotton, or food, is, however, reserved for the Central Buying and Selling Office. The Central Office has available for profitable disposition not only a large portion of the goods it receives in return for its exports of war booty, but also certain quantities of finished goods which it demands from the USIA enterprises in return for raw materials supplied by it to these enterprises. (See appended ☐ Comment, paragraph 2.)

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3. In order to obtain the permission of the Austrian Government to export to the west, it became necessary for USIA to submit requests for licenses to the appropriate office of the Austrian Government. This step was necessary since there exist between Austria and most of the other western countries clearing agreements which contain certain difficulties for the independent westward export of Austrian materials by the Soviets. Moreover, in the case of export of war booty, which is actually outside Austrian jurisdiction, the western countries are demanding certificates from the Austrian Government, specifying that such shipments are bona fide war materials. Although such requests go to the Trade Ministry, to the Finance Ministry, and to the Federal Chancellery, the recommendation of the Trade Ministry is almost always regarded by the other two departments as the most authoritative in such matters.
4. The official Austrian attitude in regard to USIA requests is not quite clear, principally because of a request by Foreign Minister Gruber in February 1948 that pertinent conversations in the inter-ministerial council be interrupted pending the outcome of the London Conference. At present, no compensation transactions suggested by a USIA concern are being processed at all by the governmental departments, and all applications are being shelved until further notice. One exception is the large-scale export of war booty, the profit from which is to be used by the USIA Buying and Selling Office for the purchase of raw materials from America and Britain. (See appended Comment, paragraph 3.) In order to obtain Austrian Government permission for this business, USIA is placing relatively large quantities of products from USIA factories on the Austrian domestic market, in the hope of influencing the Trade Ministry toward a favorable consideration of the USIA requests. (See appended Comment, paragraph 4.)
5. It should be noted here that a certain schilling shortage may also doubtless be partly responsible for the release of goods to the Austrian market. However, caution should be used in considering this reason as decisive, since the Soviets alone (through the sale of textiles on the black market) could obtain enough Austrian currency to cover their requirements. (See appended Comment, paragraph 5.) This sale of USIA goods at ceiling prices represents a maneuver on the part of the Soviets. They show a willingness to submit to Austrian law provided they can reap the benefits of this apparent legality. These benefits are chiefly the foreign credits which they can gain through Austrian-approved foreign sales. In other words, USIA is seeking to buy rights to trade with the West, equal to those enjoyed by bona fide Austrian firms. A list of the applications filed since January with the Trade Ministry is now in preparation.
6. Some trade transactions are also being carried on illegally with western countries. For "black" transactions with western countries, USIA uses Austrian firms almost exclusively, since direct traffic between the Soviets and these countries via western Austria is not possible. A number of these deals are also made by transiting goods via Czechoslovakia; the result of this maneuver is that Austrian goods are being represented in western Europe as Czech goods and are being sold under the protection of Czech papers.

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7. The following appear to be the principal USIA collaborators in trade with western countries:

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a. Degos [REDACTED]

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b. Hermann Krause & Co. [REDACTED]

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c. Merx Import und Export [REDACTED]
[REDACTED]

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These three firms are engaged mainly in obtaining textiles [REDACTED]

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[REDACTED] for USIA. The manner in which these goods are imported is not clear, although they are possibly partly purchased within the

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[REDACTED] wool credit agreement and partly bought [REDACTED] for dollars or pounds and then transported to Austria by Vuzhttrans

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[REDACTED] In March 1948, Merx made an agreement to take over USIA war booty stocks stored in Wiener Neudorf and Enzesfeld and to sell them for schillings.

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d. Arga [REDACTED]

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e. Dacia [REDACTED]
[REDACTED]

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These two firms have specialized in obtaining goods [REDACTED] outside official Austrian channels. An Austrian firm purchasing USIA goods pays USIA not in schillings but in [REDACTED] machine tools, electric motors, etc., which are imported by Arga or Dacia in the name of the Austrian firm and turned over to USIA.

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f. Mitterbacher & Wagner [REDACTED]

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The latest plans of Mitterbacher include the export of 10,000 tons of scrap, as well as 2,000 tons of aluminum. This sale will be credited to the USIA account [REDACTED] In these deals Mitterbacher meets with strong competition from the Soviet Buying and Selling Office (Osipov and Albin). [REDACTED]
[REDACTED]

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g. Egon von Tersch [REDACTED]

The Tersch firm has not been particularly successful in its attempts to engage in operations similar to those of Mitterbacher.

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h. Donauhandel [REDACTED]

This firm engages in an exchange of business of all sorts for the Soviets, but has not yet achieved any great prominence. It is planning at present to undertake the sale for USIA of locomotives in the Near East or in South America.

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i. Mayaudon [REDACTED]

Although this firm has dealings with the Soviets, no agreement has hitherto been concluded without permission of the Austrian authorities. Dr. Weiss of the Metallurgical Section of USIA furthers the interests of this firm with USIA.

Although a great number of other Austrian firms have business contacts with USIA, which are often extra-legal, these are mainly limited to the fulfillment of manufacturing needs and cannot be called cases of actual collaboration.

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8. It may be concluded from the foregoing that the Soviets intend to intensify USIA trade relations with the West. Moscow expects USIA to realize a certain amount of dollar profits from such trade and has instructed USIA to bend every effort toward the procurement of raw and auxiliary materials from the West and forward the sale of the production of USIA factories on "hard currency" markets. USIA can avoid the necessity for enlarging its trade with western countries only if it is prepared to attach itself unconditionally to the Czech economy or something similar; and the unity of the eastern bloc does not yet appear highly enough developed to warrant such an attachment. It is well known that numerous attempts by USIA to export its goods eastward against dollar payments have failed. In this connection it is interesting to note that in March 1948, ~~Herowicz~~, of the Polish Foreign Trade Ministry, told an Austrian trade delegation that Poland, despite the fact that she fully appreciates the situation of the USIA industries in Austria, is unable to purchase goods outside the framework of the Austrian-Polish trade agreement.

 Comment: 1. It became apparent in the summer of 1947 that USIA was trying desperately to win western markets in order to pay back a debt of approximately \$1,000,000 owed to Moscow.

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2. One of the greatest difficulties facing USIA, and all of Austrian industry in the past six months, has been the great shortage of raw materials. Since the Soviets have exhausted the reserve supplies which were on hand at the time they assumed control of their factories, they have found that the replacement of these materials is very difficult, particularly of the strategic metallic materials needed for the electrical industry. Although for a time imports of copper, zinc, and aluminum were being received from Yugoslavia, these deliveries were stopped in February 1948.

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3. Despite the fact that these are often merely rumors or loose boasts of individual Soviet officers in the presence of Austrian subordinates, such phrases as "machinery has been ordered from America" or "raw materials are being purchased by the Soviets in America" are often actually reported without qualification. No proof has ever accompanied any of these reports showing that USIA or any of its sister agencies have actually been successful in purchasing directly from the U. S. or Great Britain.

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4. As cited in numerous previous reports, the evidence points overwhelmingly to the schilling shortage as the real reason for the diversion of greater quantities of goods to the legal market.

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5. Although the Soviets may possibly have sufficient on deposit to provide them with adequate schilling funds for some time, the conversion of these funds into schillings would destroy the existence of large hard currency deposits, which is the goal of the "black" and war booty transactions heretofore conducted by the Soviets. Perhaps it would be more correct to assume that the schilling shortage and the desire to impress the Austrian Government with its docility are together responsible for USIA's decision to deliver more of its manufactured goods to the Austrian market. It should not be overlooked that the order to provide the Austrian market with 75% of USIA's output was reported to have come direct from Moscow.

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